

file *R*

DATE: August 15, 1995

TO: ROM's

MS

Please distribute to all D/M and S/R's with Military coverage accountability.

Please disregard if this does not apply to your region.

Thank you,

led Rosen only

Richard

Richard Beck
U.S. Military/Duty Free

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R. J. REYNOLDS TOBACCO COMPANY, INC.
U.S. MILITARY/DUTY FREE
FIELD SALES CORRESPONDENCE

(CONFIDENTIAL)

DATE: August 15, 1995

TO: RM's/MSM's

SUBJECT: Revised Coupon Strategy - Savings Category

In an ongoing effort to achieve the optimum balance of volume, share and earnings in Military markets, effective August 21 a revised Savings Coupon strategy will be implemented as a "test" program in all divisions. The test period, which will terminate on September 30, 1995, is designed to stem profit erosion and maximize MAM in the Savings Category via a controlled reduction of coupon spending. Consequently, each division has been allocated a Savings Coupon Budget for the test period, commensurate with the financial resources available for the test program. The "test" Savings Coupon Budget by market is reflected in the following charts:

Division		Total Savings Budget During Test Period	Average Weekly Budget
		(\$'s)	(\$'s)
3311	Boston	16,744	2,791
3315	Philadelphia	12,051	2,008
3321	Fayetteville	55,664	9,277
3322	Atlanta	46,835	7,806
3324	Mobile	90,695	15,116
3326	Jacksonville	67,715	11,286
3328	Norfolk	44,725	7,454
3329	Washington	19,327	3,221
3368	Cincinnati	53,112	8,852
Total Eastern		406,868	67,811

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Division		Total Savings Budget During Test Period	Average Weekly Budget
		(\$'s)	(\$'s)
3432	Hawaii	6,298	1,050
3451	San Francisco	16,085	2,681
3453	Phoenix	46,444	7,741
3454	San Diego	15,540	2,590
3455	Riverside	20,881	3,480
3456	Seattle	42,564	7,094
3457	Dallas	101,532	16,922
3458	San Antonio	77,193	12,866
3469	St. Louis	71,863	11,977
Total Western		398,400	66,401
Total Military		805,268	134,212

As maximizing the impact of our Marketing resources remains key to achieving our earnings objective, this test program will enable us to determine if resources invested in Doral over time to stimulate Military consumer trial/switching has developed any brand equity. Based on the level of brand equity established, we may be able to reduce our spending in the Savings Category and sustain our current volume levels, while simultaneously increasing MAM.

Also as information, each division's allocated Savings Coupon (test) Budget was determined by projecting the placement of \$1.00 per carton coupons at a promoted volume of 80%. Based upon your business judgment, you may determine a need to place higher denominated coupons (in excess of \$1.00) in selective accounts, which is permissible. However, please be aware, placing higher denominated coupons will require you to reduce the promoted volume correspondingly, or your division budget will be depleted prior to the termination of the test period (\$1.00 coupons at 80% PV is equivalent to \$2.00 coupons at 40% PV). Accurately measuring the impact of reduced coupon spending on Savings volume, share and earnings is very important; therefore, under no circumstances may coupon spending exceed the allocated budget per division.

Effective immediately, we plan to elevate our BU management practices to a higher level and our business results will be directly measured through our sales reports. Consequently, it is imperative that all coupons placed in commissaries and exchanges are reported accurately by account. Placement of coupons may not be recorded under one "dummy" account.

Ultimately, it is the MSM's responsibility to ensure all coupons placed in his/her division are accurately recorded in a timely fashion. Therefore, all part-time personnel without access to a Hand-Held or Poquet should communicate (phone, fax, mail, etc.) the quantity of coupons placed by account to the MSM on a weekly basis, and the MSM should report the information in SIS prior to the close of the business week. Part-time personnel with access to a Hand-Held or Poquet should report the quantity of coupons placed by account on a daily basis. It is extremely important all coupons placed during a business week are accurately reported by account during the same business week (NLT Friday). Your Region Manager can assist you with implementation of the most effective process to ensure accurate and timely coupon reporting in your respective division.

After the Savings Coupon test program has been completed, the relationship between Savings Brand volume, earnings and MAM will be thoroughly evaluated/analyzed, and you will be advised of the test results. Please be reminded however, the revised coupon strategy only applies to the Savings Category and does not involve Full Price Brands. At this time, no changes are planned for the Full Price coupon strategy.

Also, to ensure everyone follows the same strategic guidelines, a revised/updated version of the U.S. Military Pricing/Discounting/Coupon Strategy for each class of trade has been enclosed and should be maintained in your possession as an ongoing point of reference. Would each MSM please ensure our revised Saving's coupon strategy is communicated to all part-time employees and please ensure everyone has a clear understanding of his/her roles. Also, please stress the importance of confidentiality, and remind our part-time personnel not to discuss our business strategy with customers or competitors.

In addition, the Regional Managers should assume the responsibility of communicating the revised U.S. Military Savings Brand strategy to all divisions that currently have Military account coverage responsibility. Should you have any questions or require additional information regarding the implementation of the revised Savings Coupon strategy, please feel free to contact Ralph Gaillard, Richard Beck or your Regional Manager.

R.J. Reynolds Tobacco Company/U.S. Military BU

cc: R. Gaillard
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J. Kies
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